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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001402

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SUBJECT: UMC ANNOUNCES DEAL WITH PRC'S HE JIAN

REF: A. TAIPEI 539

[1](#)B. TAIPEI 1343

Classified By: AIT Director Douglas H. Paal, Reason 1.5 b/d

Summary

[1](#)1. (C) Semiconductor manufacturer United Microelectronics Corp. (UMC) announced a deal whereby it would receive 15 percent of He Jian Technology Co. It is not yet clear whether this deal will help UMC resolve accusations that it illegally provided assistance to the PRC competitor in violation of its shareholders' interests and Taiwan regulations on Mainland investment and technology transfer. Meanwhile, UMC's Chairman has left Taiwan for the United States, possibly to flee prosecution. However, if the deal eventually goes through, UMC's gamble in circumventing Taiwan law could pay off. End summary.

Sweet Deal

[1](#)2. (U) On March 20 UMC, Taiwan's second largest semiconductor manufacturer, announced that it had worked out a deal with PRC semiconductor manufacturer He Jian to receive a 15 percent stake in He Jian worth USD 110 million. The deal is intended to resolve accusations UMC violated the trust of its shareholders by providing assistance to a competitor. According to UMC's Chairman Robert Tsao, the deal would be subject to approval by Taiwan authorities.

Not Sweet Enough

[1](#)3. (C) However, it's not clear how this proposed arrangement would resolve the accusations against UMC. In announcing He Jian's USD 110 million compensation deal, UMC admitted that it provided very substantial assistance to He Jian. The head of Taiwan's Securities and Futures Bureau Wu Tang-chieh has called on UMC's Tsao to explain the deal in an open hearing. Furthermore, some analysts believe that even a 15 percent stake in He Jian doesn't adequately compensate the shareholders of UMC. Sino-Pac Securities Co. Senior Consultant Huang Wen-jur told AIT/T that he estimated the value of UMC's assistance to He Jian to be 30 to 40 percent. Some sources have said that He Jian was a 50-50 joint venture between UMC and the Suzhou local government.

[1](#)4. (C) The interests of shareholders aside, the proposed deal does little to resolve the accusations that UMC invested in the Mainland without Taiwan government approval and illegally transferred technology. Ministry of Economic Affairs (MOEA) Investment Commission Deputy Executive Secretary Emile Chang told AIT/T that he had discussed the proposed deal with UMC officials on March 23 and the Investment Commission still had many questions. UMC claims that the stock would be compensation for administrative consulting and denied claims that UMC had provided patented technology. Chang observed to AIT/T that USD 110 million in stock for administrative consulting just doesn't make any sense. The Investment Commission has asked UMC for more information about what it provided to He Jian. If it illegally transferred technology to He Jian, Chang said that UMC would face a fine of NT\$ 25 million (USD 800,000).

[1](#)5. (C) Chang also observed that the issue of whether the Investment Commission could approve the deal after the fact was still not clear. In addition to the post facto nature of the application, the Commission may not be able to approve any investment in He Jian because of the advanced technology it uses. He Jian already produces semiconductors with 0.15-micron feature size. Current Taiwan regulations forbid Mainland investment in technology finer than 0.25 microns. Chang said that these questions would require more review by MOEA.

Chairman Tsao On the Lam?

[1](#)6. (C) Meanwhile, UMC's Tsao left Taiwan for the United States this week. Many observers believe that he is fleeing

prosecution. The Securities and Futures Bureau has formally asked him to return to explain the UMC-He Jian case. In a media interview conducted in the U.S., Tsao maintained that UMC had violated no laws. Tsao claims that he is traveling to attend an art exhibition and visit friends. He has refused to cut his trip short and has not yet given any indication when he will return to Taiwan.

17. (C) Taiwan authorities had not restricted Tsao from leaving Taiwan, but they have prevented almost two dozen He Jian senior executives and engineers from returning to the PRC since the Lunar New Year. According to some observers, Taiwan authorities have essentially depopulated the ranks of He Jian's engineers and it is having a serious impact on the company's operations.

Comment) A Gambling Man

18. (C) Tsao has a reputation as a gambler. Despite UMC's current difficulties, his gamble with He Jian could still pay off. He made a strategic decision some years ago to circumvent intentionally the intent and probably the letter of Taiwan law by assisting He Jian under the condition that UMC would be formally compensated later. Mainland Affairs Council Department of Economics Director Fu Don-cheng recently told AIT/T that when MAC was consulting with industry leaders about plans to open up investment in the Mainland in the semiconductor industry, Tsao was vocally opposed to the model that was approved) allowing Taiwan firms to build their own fabs under strict technology limits. Instead Tsao advocated permitting Taiwan firms to form strategic alliances with Mainland competitors. Even though his recommendation was rejected, it's clear now that Tsao proceeded with those plans.

19. (C) In contrast, Taiwan Semiconductor Manufacturing Co. (TSMC) scrupulously observed Taiwan law and now has a wholly-owned, operational 8-inch fab using 0.25-micron technology in the PRC, technology TSMC told AIT is six year out-of-date. UMC may or may not be able to formalize its significant stake in He Jian. However, He Jian already has at least 0.15-micron technology, the capacity to produce 30,000 wafers per month, and a strong customer base. UMC is one of the crown jewels in Taiwan's economy. The Taiwan government will strive to preserve its economic viability and protect the interests of its shareholders. The game is still in play, but UMC may yet turn out to be the big winner. End comment.
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